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Midterm review of the integrated budget, 2014-2017

Summary

The present report contains the midterm review of the UNFPA integrated budget, 2014-2017, in accordance with Executive Board decision 2012/27. It reviews the strategic and financial context within the 2030 Agenda for Sustainable Development and its implications on resource estimates, allocations and results. The report also responds to Executive Board requests for a midterm review of the application of the harmonized cost recovery framework and an assessment of ways to enhance results-based budgeting. This midterm review should be read in conjunction with the midterm review of UNFPA strategic plan, 2014-2017 (DP/FPA/2016/2).

In response to the significant changes in the funding environment, UNFPA is requesting a reduced appropriation for its institutional budget of $609.9 million for 2014-2017, down from $664.1 million originally approved. Similarly, UNFPA is requesting a reduced ceiling approval for global and regional interventions of $231.5 million, down from $275 million originally approved.

Elements of a decision are contained in section IV.

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I. Scope

1. This midterm review of the UNFPA integrated budget, 2014-2017 is submitted in accordance with Executive Board decision 2012/27 on the joint road map to an integrated budget. In particular, the decision on the joint roadmap stipulated that "the resource projections and the integrated budget for all cost categories will cover a four-year period, coinciding with the duration of each organization's strategic plan, and that the integrated budget will be reviewed together with the midterm review of each organization's strategic plan".

2. In addition to the review of the integrated budget financial projections, the Executive Board requested in decision 2013/32 that UNFPA submit information on the actual implementation of the revised cost recovery methodology, together with any related recommendations, and to include an assessment of ways to enhance results-based budgeting. All of these requirements are addressed as part of the present submission.

3. The integrated budget encompasses all the cost categories and results of the organization within a single, integrated framework. Accordingly, the scope of this review covers the entire spectrum of organizational resources.

4. The midterm review does not constitute a new budget proposal. Instead, it provides an assessment of already approved budget estimates in the context of the midterm review of the UNFPA strategic plan, 2014-2017 (DP/FPA/2016/2) and the latest available information. As a result, the midterm review focuses on changes to the financial context surrounding the organization, lessons learned during the implementation of the integrated budget, and additional Executive Board mandates that were approved after the approval of the integrated budget, 2014-2017. Such changes constitute the basis for this review and for any proposals contained herein.

5. Changes proposed as part of this midterm review will take effect as of 1 January 2017, unless otherwise noted.

II. Strategic framework and financial context

A. Strategic context

6. The UNFPA strategic plan, 2014-2017 set out a vision for changes in the lives of women, adolescents and youth that the organization seeks to bring about in the four years of the plan. The so-called 'bull's eye' represents the core goals of UNFPA: achievement of universal access to sexual and reproductive health; realization of reproductive rights; reduction in maternal mortality. The midterm review of the strategic plan is a cumulative assessment of the progress made in implementing the strategic plan and its robustness in the changing development and humanitarian environment, and describes some adjustments to the plan.

7. In 2015, the international community achieved a number of important agreements. World leaders adopted the transformative, universal 2030 Agenda for Sustainable Development, along with the corresponding Sustainable Development Goals, and a global framework for financing it. The Addis Ababa Action Agenda of the Third International Conference on Financing for Development laid the ground for implementing the new sustainable development goals with bold measures to overhaul global finance practices and generate investments for tackling a broad range of challenges. The world also came together to take common action on climate change with the adoption of the Paris Agreement.

8. However, 2015 was also a year of tremendous challenges. More than 100 million people around the world were in need of humanitarian assistance, with a growing number of

refugees and displaced persons. There was increased insecurity, violence and terrorism; and a deteriorating funding environment that is challenging United Nations organizations to do more with less, as the world transitions into the post-2015 era.

9. The 2030 Agenda reaffirmed that human beings must be at the centre of sustainable development – this had also already been recognized in the Programme of Action of the International Conference on Population and Development. Accordingly, UNFPA has a vital role to play in supporting countries to implement and achieve the Sustainable Development Goals. They will not be achieved without empowering women, girls and young people to have control over their bodies and their lives and to contribute meaningfully to their societies. They will not be achieved without high-quality population data and analysis to drive evidence-based policy making.

10. The work of UNFPA cuts across the 2030 Agenda. The focus on sexual and reproductive health and reproductive rights, as outlined in the 'bulls-eye', will continue to guide the organization's work. For UNFPA, the 2030 Agenda means not necessarily doing different things but doing things differently.

11. While the overall direction of the strategic plan remains unchanged – it still comprises four development outcomes and three organizational effectiveness and efficiency outputs – and its integrated results framework is still valid, some minor adjustments are suggested to a few outputs, indicators and targets to further refine it. The integrated budget is the financial plan to enable the organization to deliver on all of these results.

12. The four development outcomes remain unchanged:

(a) Outcome 1: Increased availability and use of integrated sexual and reproductive health services (including family planning, maternal health and HIV) that meet human rights standards for quality of care and equity in access;

(b) Outcome 2: Increased priority on adolescents, especially on very young adolescent girls, in national development policies and programmes, particularly increased availability of comprehensive sexuality education and sexual and reproductive health;

(c) Outcome 3: Advanced gender equality, women's and girls' empowerment, and reproductive rights, including for the most vulnerable and marginalized women, adolescents and youth;

(d) Outcome 4: Strengthened national policies and international development agendas through integration of evidence-based analysis on population dynamics and their links to sustainable development, sexual and reproductive health and reproductive rights, HIV and gender equality.

13. The three organizational effectiveness and efficiency outputs are also retained:

(a) Output 1: Enhanced programme effectiveness by improving quality assurance, monitoring, and evaluation;

(b) Output 2: Improved mobilization, management and alignment of resources through an increased focus on value for money and systematic risk management;

(c) Output 3: Increased adaptability through innovation, partnership and communications.

B. Financial context

14. UNFPA was on track in 2014 to achieve the revenue targets set out for the first year of the strategic plan. Actual regular resource contributions received in 2014 totalled $477 million, compared to $476 million planned. Other resources revenue for 2014 fell slightly short of targets, at $525 million, compared to $542 million projected for the year.

15. During 2015, the second year of the strategic plan implementation, the global financial outlook changed significantly, mostly driven by adverse exchange rates against a strong United States dollar. Regular resources in 2015 totalled $398 million, falling short of the $478 million projected; in contrast, other resources totalled $575 million, surpassing the strategic plan target of $573 million. [1]

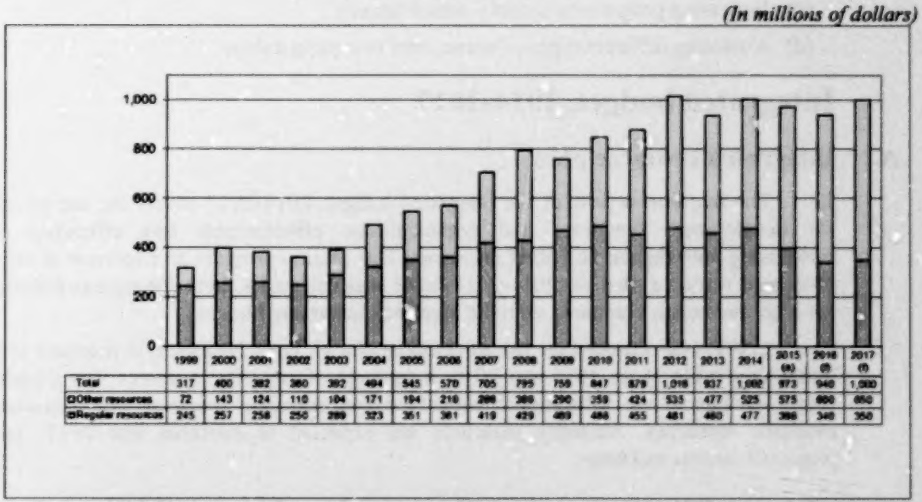
16. Based on these financial trends, as well as communications received from key donors for 2016, the contribution revenue projections have been updated as follows:

(a) 2016: $340 million for regular resources and $600 million for other resources, down from $482 million and $611 million, respectively;

(b) 2017: $350 million for regular resources and $650 million for other resources, down from $486 million and $656 million, respectively.

Figure 1
UNFPA income 1999-2017

(In millions of dollars)



	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015 (e)	2016 (f)	2017 (f)
Total	317	400	382	360	392	494	545	570	705	795	759	847	879	1,018	937	1,002	973	940	1,000
Other resources	72	143	124	110	104	171	194	210	288	369	290	359	424	533	477	525	575	600	650
Regular resources	245	257	258	250	289	323	351	361	419	429	469	488	455	481	460	477	398	340	350

Source: 1999-2014, annual financial statements; 2015, estimate (e); 2016-2017, forecast (f).
Note: Figures for regular resources contributions exclude interest income; for 2010-2013, they reflect adjustments of refunds to staff for income tax levied by a Member State.

17. The decreased share of regular resources as a proportion of total resources presents new challenges for the organization, particularly as this trend is not expected to reverse in the foreseeable future. This is not unique to UNFPA, as other organizations are also increasingly experiencing shifts towards earmarked funding.

18. Within this challenging new environment, UNFPA is taking steps to ensure that it remains a financially sound organization by aligning its cost structure to the new funding trends. It is critical for the financial sustainability of the organization that other resources are not subsidized by regular resources. UNFPA has embarked on a critical change management process and will continue to engage contributing partners and other stakeholders to ensure that the direct costs arising from the implementation of projects and programmes funded from

[1] For 2015, income estimates are provisional, as financial books for the year were not closed at the time of the report's submission.

other resources are included in the funding proposals. More information is provided under the cost recovery section of this document.

19. UNFPA will continue to advocate for increased contributions for regular resources, which are the bedrock of the operational activities for development, as underscored in General Assembly resolution 67/226 on the quadrennial comprehensive policy review of operational activities for development of the United Nations system (QCPR). UNFPA will continue to work with the donor community, strengthening partnerships with programme countries, and engaging with a range of donors to widen the organization's resource mobilization efforts for the ICPD agenda, in line with the UNFPA resource mobilization strategy (DP/FPA/2015/11).

20. UNFPA will pursue its resource mobilization efforts through a four-pronged approach:

(a) Securing contributions from traditional donors and creating the necessary conditions for continued funding;

(b) Attracting contributions and mobilizing increased support from non-traditional donors, including through South-South cooperation;

(c) Increasing programme country contributions;

(d) Attracting different types of donors and new partnerships.

III. Integrated budget, 2014-2017

A. Integrated resource plan

21. The midterm review of the integrated budget, 2014-2017 covers the use of resources for development outcomes and organizational effectiveness and efficiency outputs, comprising both regular and other resources. This section provides an overview of the revised integrated resource plan for 2014-2017 in all cost categories, both for regular resources and for other resources, compared with the approved integrated budget.

22. UNFPA has reduced the use of resources for all cost categories, in response to income trends (see table 1). In 2015 and 2016, a package of austerity measures was introduced to create savings in the institutional budget so that spending remained commensurate with available resources. Austerity measures are expected to continue into 2017, based on projected income estimates.

Table 1
Integrated resource plan, 2014-2017 – midterm review

(In millions of dollars)

1. Resources available	Integrated budget, 2014-2017 (DP/FPA/2013/14)					Integrated budget, 2014-2017 - midterm review				
	Regular resources	Other resources		Total resources	Percentage of total	Regular resources	Other resources		Total resources	Percentage of total
		Programme	Cost recovery				Programme	Cost recovery		
Opening balance [a]	28.9	185.4		214.3		6.1	321.9		328.0	
Income										
Contribution-gross	1,921.7	2,382.2		4,303.9		1,565.0	2,398.6	-	3,963.6	
Other [b]	42.9			42.9		29.7	(13.0)	-	16.7	
Total income	1,964.6	2,382.2		4,346.8		1,594.7	2,385.6	-	3,980.3	
Less tax reimbursements [c]	(19.7)			(19.7)		(21.3)	-	-	(21.3)	
Total available	**1,973.7**	**2,567.6**		**4,541.3**		**1,579.5**	**2,707.5**		**4,287.0**	
2. Use of resources										
A. Development activities										
A.1 Programmes [d]	1,132.1	2,310.8	(166.7)	3,276.2	*77.4%*	934.2	2291.08	(150.44)	3,074.8	*78.2%*
A.2 Global and regional interventions	275.0			275.0	*6.5%*	231.5			231.5	*5.9%*
A.3 Emergency fund	20.0			20.0	*0.5%*	14.0			14.0	*0.4%*
A.4 Development effectiveness	149.3			149.3	*3.5%*	127.3			127.3	*3.2%*
Total development	1,576.4	2,310.8	(166.7)	3,720.5	*87.8%*	1,307.0	2,291.1	(150.4)	3,447.6	*87.7%*
B United Nations development coordination	8.6			8.6	*0.2%*	8.5			8.5	*0.2%*
C Management activities										
C.1 Recurring costs	329.4		157.7	487.1	*11.5%*	312.2	-	145.2	457.4	*11.6%*
C.2 Non-recurring costs	10.2		9.0	19.1	*0.5%*	11.4		5.3	16.7	*0.4%*
Total management	339.5		166.7	506.2	*12.0%*	323.6	-	150.4	474.1	*12.1%*
D. Special purpose										
D.1 Capital investment										
Total use of resources (A+B+C+D)	**1,924.5**	**2,310.8**	**(0.0)**	**4,235.3**	***100.0%***	**1,639.1**	**2,291.1**	**-**	**3,930.2**	***100.0%***
3. Net amounts from (to) reserves [e]	-	-	-	-		**59.7**	-	-	**59.7**	
4. Balance of resources (1-2+3)	**49.2**	**256.8**	**0.0**	**306.0**		**0.1**	**416.4**	**-**	**416.5**	
Summary institutional budget										
A.2 Development effectiveness	149.3	-	-	149.3	*3.5%*	127.3	-	-	127.3	*3.2%*
B. United Nations development coordination	8.6	-	-	8.6	*0.2%*	8.5	-	-	8.5	*0.2%*
C.1 Management recurring costs	329.4	-	157.7	487.1	*11.5%*	312.2	-	145.2	457.4	*11.6%*
C.2 Management non-recurring costs	10.2	-	9.0	19.1	*0.5%*	11.4	-	5.3	16.7	*0.4%*
D.1 Special purpose	-	-	-	-	*0.0%*	-	-	-	-	*0.0%*
Total	**497.4**	**-**	**166.7**	**664.1**	***15.7%***	**459.4**	**-**	**150.4**	**609.9**	***15.5%***

a/ Regular resources opening balance for 2014 has been revised as per 2013 financial statements; earmarked resources have been revised based on funds received and available for programming.

b/ Includes interest and miscellaneous income.

c/ Adjustment for tax reimbursements to staff who are nationals of one Member State.

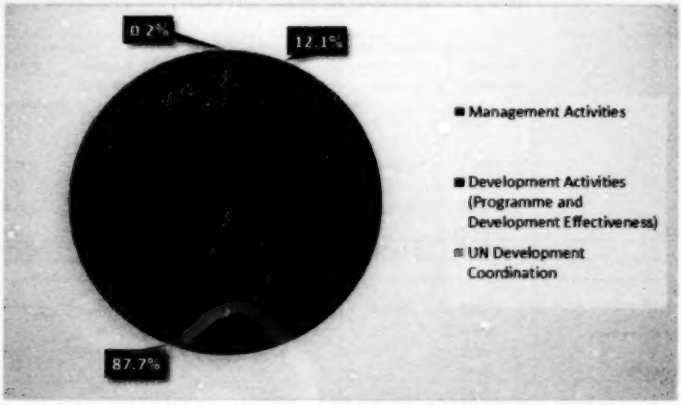
d/ 'Other resources - Programmes' reflects total programme expenses as per financial statements, the cost recovery is offset to enable a comparison with the estimates in the budget document.

e/ Includes adjustments to the operational reserve as per financial regulations and rules and transfers from previous periods.

23. The proposed use of resources from table 1 is illustrated in figure 2, which shows the proportion of resources devoted to activities related to development, management and United Nations development coordination.

24. UNFPA is committed to channelling the majority of its resources to development activities. Revised resource projections for 2014-2017 show that UNFPA will allocate 87.7 per cent of total available resources to development activities, in line with integrated budget projections. Overall, the relative distribution of total use of resources is largely consistent with the original projections.

Figure 2
Allocation of available resources, 2014-2017 – midterm review



25. UNFPA proposes to reduce its institutional budget appropriation for 2014-2017 from the originally approved amount of $664.1 million to $609.9 million.

26. The above figures reflect a mix of actual revenue (for 2014 and 2015) and revised projections (for 2016 and 2017).[2] Resource allocations reflect actual resource distribution (for 2014-2016), with austerity measures already in place, and the proposed distribution (for 2017), which assumes the austerity measures will continue. It also includes the investments UNFPA proposes in the section on the integrated results and resources framework.

27. While the combination of actuals and projections is an implication of a budget review at midterm, this presentation does not necessarily reflect the resources of a rolling four-year budget, as some changes are proposed and costed, with an effective date of 1 January 2017. In order to transparently illustrate the implication of this review on a four-year basis, a table with the restated figures for the integrated resource plan, 2014-2017 has been included as an annex in this document. This summary table presents the restated four-year budget, and will constitute the basis for comparison when UNFPA submits its integrated budget estimates for 2018-2021.

B. Review by integrated budget component

Country programmes

28. Country programmes will continue to receive the largest share of UNFPA resources. Regular resources for country programmes are allocated in accordance with the resource allocation system, as approved in Executive Board decision 2013/31. The relative weights of various indicators underpin the resource allocation system, which groups countries (as part of the business model) according to their need and their ability to finance their own development.

29. Table 2 below shows the relative share of resources, compared to the approved ranges, as implemented in 2014-2015 and estimated for 2016-2017.

[2] At the time of submission of the present report, the 2015 financial statements were not yet finalized. Actual revenue information for 2015 is provided on the basis of provisional figures, as at March 2016.

Table 2
Resource allocation system – strategic plan ranges and allocations – actual (2014-2015) and estimated (2016-2017)

Color quadrant	2014-2015			2016-2017		
	Target	Actual	Variance	Target	Estimated	Variance
Red	50-52%	52.3%	0.3%	59-63%	56.8%	-2.2%
Orange	21-23%	21.4%		20-22%	20.6%	
Yellow	10-12%	10.2%		6-8%	9.1%	1.1%
Pink	15-17%	16.0%		9-13%	13.5%	0.5%

30. The Executive Board in decision 2013/31 requested UNFPA to match any optional contribution provided by upper-middle-income or high-income countries to fund their own programme activities, up to an amount of $100,000 per year. UNFPA has implemented this modality, and will continue to make regular resources available for these allocations, as they strengthen the scope of partnerships and provide incentives for resource mobilization. In 2014, five countries received matching funds, totalling $485,480. The modality was extended to nine countries receiving matching funds in 2015, for a total of $719,869.

31. The breakdown by region and country is provided in tables 3 and 4 below.

Table 3
Matching funds 2014

Region	Country	Amount matched
Arab Region	Lebanon	85,480
Asia and the Pacific Region	Malaysia	100,000
Latin America and the Caribbean Region	Brazil	100,000
	Colombia	100,000
	Mexico	100,000
Total matched 2014		**485,480**

Table 4
Matching funds 2015

Region	Country	Amount matched
Arab Region	Algeria	100,000
	Lebanon	45,675
	Oman	100,000
Asia and the Pacific Region	Malaysia	100,000
East and Southern Africa Region	Botswana	66,152
Latin America and the Caribbean Region	Colombia	8,042
	Mexico	100,000
	Uruguay	100,000
West and Central Africa Region	Equatorial Guinea	100,000
Total matched 2015		**719,869**

Global and regional interventions

32. The Executive Board in decision 2013/31 authorized UNFPA to allocate a maximum of $275 million of projected regular resources as a ceiling for global and regional interventions during 2014-2017. UNFPA now proposes to revise that figure, for regular resources for global and regional interventions, downward to $231.5 million for the entire planning period. The organization is able to lower the allocation due to the austerity measures implemented by UNFPA management in order to ensure that expenditure levels remain in line with available regular resources. The lower allocation is also due to the rebalancing of the cost categories discussed below.

33. In developing the integrated budget, 2014-2017, UNFPA closely scrutinized the classification of regular resources across programmatic and non-programmatic categories and substantially shifted costs between them, in line with cost definitions approved by the Executive Board. In particular, UNFPA undertook an extensive revision of costs pertaining to global and regional interventions to ensure that such costs corresponded to programmatic functions. The original integrated budget proposal for 2014-2017 reflected these significant cost classification alignment efforts.

34. As part of this review, UNFPA committed to review and identify any residual management costs that may still remain in global and regional interventions, and move them to the institutional budget at the midterm review of the strategic plan and the integrated budget (DP/FPA/2013/CRP.1). It aimed to identify the small portion of costs remaining under programme that could arguably be considered as management costs.

35. UNFPA undertook a review of global and regional interventions costs to identify any residual management costs. These residual costs related mostly to functions that were redefined in the context of the new development agenda, related, for instance, to strengthening multilateral affairs at the global and regional level as well as enhancing strategic partnerships. The functions were changed in 2015, following the approval of the global and regional interventions in decision 2014/16. For regional functions that had a mix of programmatic and management elements – communication and outreach; resource mobilization; and partnerships – UNFPA took a strict approach to cost classification and reclassified these as management costs. An annual amount of $6.4 million previously categorized as under 'programme' is now proposed to be re-categorized under 'management', to be included in the institutional budget appropriations. More information on the reclassified costs is provided in the context of expected results, in the results and resources section of this document.

Emergency fund and humanitarian response reserve

36. As part of decision 2013/32 on the integrated budget, the Executive Board approved an annual allocation of $5 million of regular resources for the emergency fund. In 2015, in decision 2015/3, the annual allocation was increased to $10 million,

37. The allocation aimed to facilitate and strengthen the organization's rapid and robust response to humanitarian crises. The fund is not intended to become a primary vehicle to finance humanitarian response, but plays an important role in providing catalytic funding, which often increases capacity to generate additional resources. In 2014 and 2015, $5 million was allocated to the emergency fund; however, in 2016, as a result of austerity measures, this amount was reduced to $2 million and, given the continuing austerity environment, the amount projected for 2017 will remain at $2 million.

38. In 2015, the Executive Board in decision 2015/3 approved a one-time allocation of $10 million for the establishment of the humanitarian response reserve. UNFPA is committed to using the humanitarian response reserve solely as a bridge funding mechanism, between

the signing of agreements and the receipt of pledged funds. However, given the current resource situation, it has not yet been possible to fund the humanitarian reserve.

Institutional budget

39. The institutional budget includes the following cost categories: development effectiveness; management (recurring and non-recurring); special purpose; and United Nations development coordination. These costs are approved by the Executive Board as a nominal, fixed appropriation. UNFPA is proposing to lower the appropriation to $609.9 million, down from $664.1 million, as originally approved in the integrated budget.

40. In view of the reduced contributions to regular resources, UNFPA has distributed fewer resources to the institutional budget, thereby allocating a lower amount for these activities than originally approved by the Executive Board. The reduction of institutional budget allotments is driven primarily by the austerity measures identified.

41. Austerity measures have included freezing a significant number of posts as well as reductions in operational allotments. In light of resource projections, the level of savings yielded from these measures will need to continue into 2017. Because they negatively impact the ability of units to deliver on expected results, these austerity measures will continue to be reviewed and managed, to ensure that no organizational unit bears a disproportionate burden.

42. A few specific fiduciary oversight functions of UNFPA report directly to the Executive Board (evaluation, internal audit and investigation, ethics). Accordingly, the Board assesses the corresponding funding needs separate from the overall review of the integrated budget. This creates pressures on the institutional budget, which funds the majority of these functions, as the budget is approved as a fixed appropriation which cannot be increased to accommodate the additional requirements. In future, it may be necessary to consider other, innovative models for funding these independent oversight functions in order to facilitate the submission, assessment, approval and implementation of their respective budgets.

C. Integrated results and resources framework

43. The integrated results and resources framework for 2014-2017 reflects the four development outcomes and three organizational effectiveness and efficiency outputs of the UNFPA strategic plan. The integrated results framework contained in the strategic plan continues to be the sole, overarching results framework for UNFPA; there are no budget-specific results and indicators (see table 5 below).

44. The link between results and resources is, as in any conceptual framework, a simplified version of a complex reality. Accountability for the results in the integrated results framework does not lie solely with the units or programmes whose resources are linked to those results. The link between results and resources was developed on the basis of the harmonized results-based budgeting framework for the institutional budget (approved in Executive Board decision 2011/10) and the analysis of actual expenditure trends for programme resources.

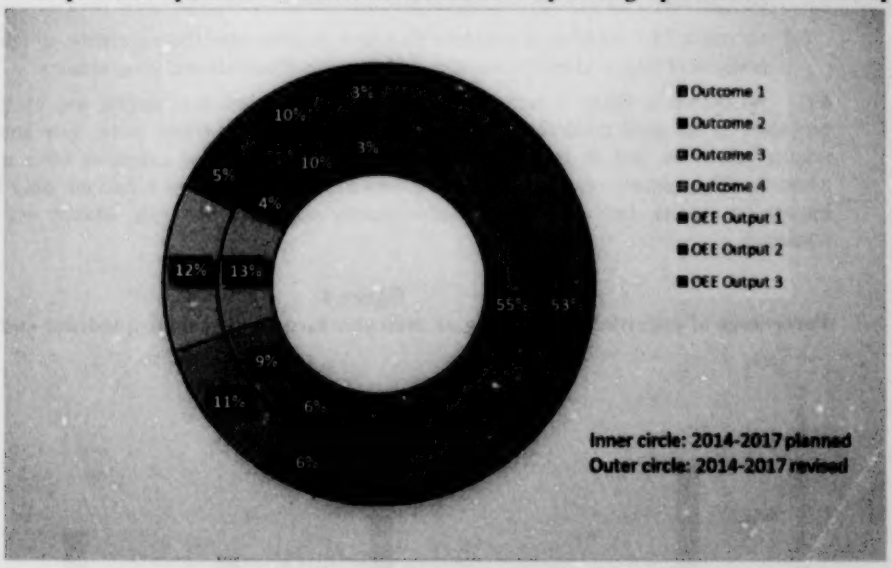
Table 5
Integrated results and resources framework

(In millions of dollars)

Outcome / Output	Cost classification	Functional cluster	Integrated budget, 2014-2017 (DP/FPA/2013/14)				Integrated budget, 2014-2017 - midterm review			
			Regular resources	Other resources	Cost recovery	Total	Regular resources	Other resources	Cost recovery	Total
Increased availability and use of integrated sexual and reproductive health services (including family planning, maternal health and HIV) that meet human rights standards for quality of care and equity in access	Programme		895.7	1,415.1	-	2,310.9	561.9	1,530.0	-	2,092.8
Increased priority on adolescents, especially on very young adolescent girls, in national development policies and programmes, particularly increased availability of comprehensive sexuality education and sexual and reproductive health	Programme		104.1	171.5	-	275.6	138.8	96.8	-	235.6
Advanced gender equality, women's and girls' empowerment, and reproductive rights, including for the most vulnerable and marginalized women, adolescents and youth	Programme		151.0	235.9	-	386.9	140.6	283.8	-	424.4
Strengthened national policies and international development agendas through integration of evidence-based analysis on population dynamics and their links to sustainable development, sexual and reproductive health and reproductive rights, HIV and gender equality	Programme		219.8	321.6	-	541.4	265.2	216.6	-	481.9
Enhanced programme effectiveness by improving quality assurance, monitoring, and evaluation	Programme		18.0	-	-	18.0	36.9	8.0	-	44.9
	Development effectiveness	Technical expertise for effective response to development challenges	13.2	-	-	13.2	11.4	-	-	11.4
		Programme planning, policy and management support	128.2	-	-	128.2	109.8	-	-	109.8
		Procurement and quality-assured supply base for reproductive health commodities	7.9	-	-	7.9	6.0	-	-	6.0
	Management	Corporate evaluation	5.5	-	3.6	9.1	5.1	-	4.4	9.5
Total			**172.9**	**-**	**3.6**	**176.5**	**169.3**	**8.0**	**4.4**	**181.7**
Improved mobilization, management, and alignment of resources through an increased focus on value for money and systematic risk management	Programme						3.9	0.3	-	4.2
	Management (recurrent costs)	Corporate oversight and assurance (internal and external audit and investigations)	14.4	-	9.1	23.5	14.6	-	8.1	22.6
		Corporate financial, information and communication technology and administrative management	41.6	-	30.1	71.7	40.5	-	29.2	69.8
		Field office oversight, management and operations support	205.2	-	79.2	284.4	192.0	-	68.3	260.3
		Staff and premises security	3.8	-	2.0	5.8	4.3	-	2.5	6.9
		Corporate human resources management	16.4	-	10.8	27.2	15.8	-	9.2	25.0
	Management (non-recurrent costs)		10.2	-	9.0	19.1	8.9	-	7.8	16.7
	Special purpose		-	-	-	-	-	-	-	-
Total			**291.6**	**-**	**140.1**	**431.7**	**280.1**	**0.3**	**125.1**	**405.5**
Increased adaptability through innovation, partnership, and communications	Programme		38.3	-	-	38.3	32.4	4.2	-	36.6
	Management (recurrent costs)	Leadership and corporate direction	16.1	-	6.9	23.0	15.0	-	7.3	22.3
		Corporate external relations and partnerships, communications and resource mobilization	26.2	-	16.1	42.3	27.4	-	13.6	41.0
	United Nations development coordination		8.6	-	-	8.6	8.5	-	-	8.5
Total			**89.3**	**-**	**23.0**	**112.3**	**83.3**	**4.2**	**20.9**	**108.4**
Total			**1,924.5**	**2,144.1**	**166.7**	**4,235.3**	**1,639.1**	**2,140.6**	**150.4**	**3,930.2**

45. Practically all outcomes and outputs (as can be seen in table 5) have been affected by the reduced resource levels. However, the proportionate distribution of resources across the four strategic plan development outcomes and three organizational effectiveness and efficiency outputs is largely in line with the projections submitted with the strategic plan, 2014-2017. Figure 3 below shows a comparison between the original plan estimates and the revised estimates, showing the relative resources allocated to each development outcome and organizational effectiveness and efficiency output.

Figure 3
Comparison of planned versus revised allocation – by strategic plan outcome and output



Results and resources – development outcomes

46. UNFPA will use the largest share of its resources on the four development outcomes. Of those, Outcome 1, improving the availability and use of integrated sexual and reproductive health services, will continue to receive the largest share of total resources. This is in line with the organization's continued focus on the 'bull's eye', the strategic direction of UNFPA approved by the Executive Board.

47. During 2015, regular resources were reduced across all country programmes but this reduction affected more significantly the countries that heavily rely on regular resources – according to 2014 expenditure data, the pink quadrant countries relied 62 per cent on regular resources, while red quadrant countries relied 38 per cent on regular resources. The resource reduction affected the pink quadrant countries more because those countries do not attract other resources to the same extent as other quadrant countries.

48. With this background in mind, the analysis below presents the non-achievement of strategic plan output targets, by countries in the different colour quadrants. In 2015, there were five strategic plan output indicator targets, listed below, where the achievement rate was less than 85 per cent.

(a) Indicator 1.2: Number of countries that have a costed integrated national sexual and reproductive health action plan;

(b) Indicator 3.2: Number of countries that have used the results of an emergency obstetric and newborn care needs assessment to develop a costed national action plan to scale-up maternal and newborn health services;

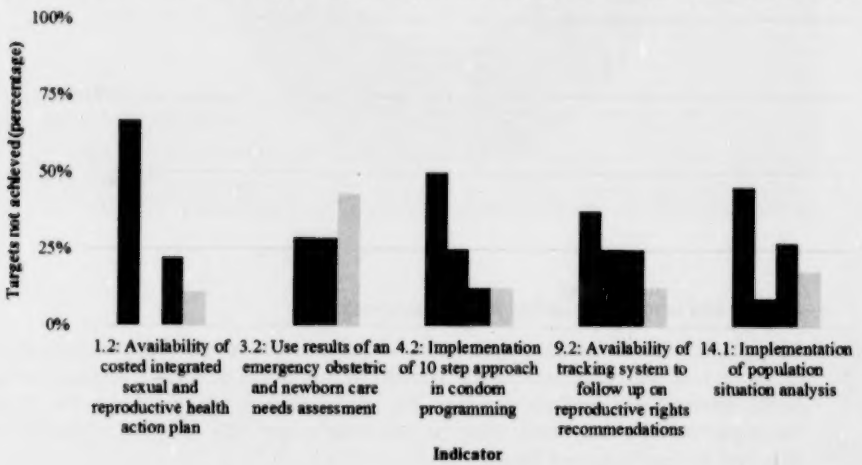
(c) Indicator 4.2: Number of countries that have reached the implementation stage of the UNFPA 10-step strategic approach to comprehensive condom programming;

(d) Indicator 9.2: Number of countries with a functioning tracking and reporting system to follow up on the implementation of reproductive rights recommendations and obligations;

(e) Indicator 14.1 Number of countries that have implemented the population situation analysis (PSA) to identify priorities and formulate policies and programmes.

49. As shown in figure 4, non-achievement of the five indicator targets was by far more prevalent in the pink quadrant countries,[3] which focus on upstream work, rely heavily on regular resources, and do not attract other resources to the same extent as other quadrant countries. This pattern suggests that a reduction in regular resources would not only have an impact on results, but also affect predominantly countries that rely heavily on regular resources.

Figure 4
Percentage of countries not meeting an indicator target – by colour quadrant and indicator


100%
75%
50%
25%
0%
Targets not achieved (percentage)
1.2: Availability of costed integrated sexual and reproductive health action plan
3.2: Use results of an emergency obstetric and newborn care needs assessment
4.2: Implementation of 10 step approach in condom programming
9.2: Availability of tracking system to follow up on reproductive rights recommendations
14.1: Implementation of population situation analysis
Indicator

[3] Colour quadrants include: pink (44 countries), orange (21), yellow (16), and red (40). Colours reflect the package of UNFPA intervention in a country, which ranges from only policy and advocacy in pink quadrant countries to policy and advocacy, capacity building, knowledge management and service delivery in red quadrant countries.

Results and resources – organizational effectiveness and efficiency outputs

50. The three organizational effectiveness and efficiency outputs are linked to resources for seven management functional clusters (harmonized with UNDP, UNICEF and UN-Women) and three (UNFPA-specific) development effectiveness functional clusters. These functional clusters are groupings of organizational units that carry out activities to deliver intended outputs, and constitute the conceptual link between results and resources in the results-based budgeting framework approved by the Executive Board.

51. Austerity measures have impacted resources allocated to all organizational effectiveness and efficiency outputs, and include freezing of posts (non-recruitment of vacant posts) and reduced operational expenses. For operational costs, cuts were introduced across the board (travel, consultancy and hospitality) as well as for specific purposes (reductions in staff learning and development, on asset replacement, and other corporate initiatives), affecting all organizational effectiveness and efficiency outputs.

52. Besides reflecting the impact of the austerity measures introduced in response to the changing funding environment, the midterm review of the integrated budget proposes increases in a few key areas of the institutional budget. Most of these incremental costs are driven by Executive Board mandates (particularly, strengthening the evaluation, internal audit and investigation capacity of UNFPA). In all cases, these incremental costs are more than offset by the austerity measures introduced in response to the funding environment. Changes related to the re-classification of global and regional intervention programme costs to management costs are budget neutral from an integrated point of view.

Output 1: Enhanced programme effectiveness by improving quality assurance, monitoring and evaluation

Strengthening the evaluation capacity

53. The quadrennial budgeted evaluation plan, 2016-2019 adopted by the Executive Board in September 2015 (DP/FPA/2015/12) presents an increased number and diversified range of corporate and programme-level evaluations to improve the supply of evaluative evidence to inform decision-making, strengthen accountability and transparency, and contribute to organizational learning for UNFPA. During the first two years of the evaluation plan (2016-2017), the evaluation office will commission and manage 10 corporate evaluations (compared to 5 in 2014-2015), and provide oversight and quality assurance of up to 46 programme-level evaluations commissioned and managed by regional and country offices (28 in 2014-2015). This represents a significant increase in workload, compared to 2014-2015. In addition, the Evaluation Office works to strengthen and professionalize the UNFPA evaluation function and underlying systems across the organization; and participates in partnerships and networks, primarily inter-agency activities aimed at strengthening and harmonizing evaluation within the United Nations system, as well as initiatives to develop national evaluation capacity.

54. The transitional budget and workplan for 2014-2015 did not fully reflect the range of roles and responsibilities required of the Evaluation Office to support the strengthening of the evaluation function. Experience implementing the UNFPA evaluation policy since July 2013 has provided a clearer understanding of the level of financial and human resources required to support the commissioning, management, quality assurance and use of credible evaluations across UNFPA. The Evaluation Office has reorganized the responsibilities of existing staff to improve efficiency and strengthen evaluation practice, and requires increased mid-grade staffing, to manage an expanded evaluation quality system, support knowledge management and communication and strengthen evaluation capacity development for UNFPA staff and partners.

55. The Evaluation Office budget is proposed to be increased by $0.3 million per year, in order to (a) augment the staffing budget for the upgrading of one post; and (b) increase the operational budget to fund activities essential to the delivery of a larger number of evaluations (expanded evaluation quality system, research support and travel costs related to supervision of corporate evaluations). It should be noted that the quadrennial evaluation plan sets out clear guidelines in terms of financing for corporate evaluations, particularly ensuring that there is full cost recovery from other resources for all corporate evaluations of joint programmes and trust funds.

Output 2: Improved mobilization, management and alignment of resources through an increased focus on value for money and systematic risk management

Strengthening the internal audit capacity of the organization

56. In decisions 2015/5 and 2015/13, the Executive Board called for the organization's plans to improve audit coverage and strengthen investigation capacity. The Board of Auditors recommended that UNFPA determine the levels of assurance appropriate for business units ranked as 'high-risk' or 'medium-risk', and empower its internal audit with resources, as appropriate, to adapt its audit cycles to the chosen assurance level.

57. The Office of audit and investigation services (OAIS) proposes an audit cycle of 3 years for high-risk business units (from currently 7 years), 10 years for medium-risk business units with additional assurance provided through continuous auditing activities (currently 17 years) and 10 years for cross-cutting reviews of corporate processes (currently ad-hoc) using, as in the past, its own staff, augmented by personnel from locally procured audit firms. In addition, supporting management through advisory services (which are very limited at present) would help improve the governance, risk management and control processes ex ante, rather than post facto. The implementation of the proposed measures would call for added managerial capacity (one P5 post, also to address current gap) and a combination of additional staff (one P4), augmented capacity (through procured services), and travel funds to conduct audit missions. It should be noted that audits of specific programmes or projects would have to be funded by the respective programmes/projects.

Strengthening the investigation capacity of the organization

58. Regarding investigation, the mandate has been significantly expanded since 2012, to include investigations of (a) harassment and abuse of authority (2013); and (b) external investigations involving third-party wrongdoing (2014). This has led to a 175 per cent caseload increase between 2012 and 2015. New cases are increasingly complex, and demand experienced investigators. Further, reporting obligations on ongoing and concluded investigations are rising, and, combined with interactions during disciplinary proceedings also increasing, add to the demand on resources. With its staffing unchanged since 2012, OAIS has reached its capacity limit, with an average of 23 cases per investigator post at year-end 2015 – and over the years, the office has relied heavily on short-term investigation consultants. In order to bring the ratio of cases by investigator down to roughly 10, add senior investigation capacity while keeping flexibility, the proposed measure would call for one additional P3 investigator and additional funds to hire consultants and undertake investigation missions.

59. Further, given the professional standards by which OAIS is bound and the certification requirements for its professional staff, the proposal also includes funds to conform to continuous professional education obligations. The total additional costs of strengthening audit and investigation capacities in UNFPA would amount to $1.8 million per year.

Reclassifying costs to better reflect the nature of the activity performed

60. The overall approach to the reclassification of residual management costs in the global and regional interventions is discussed in the midterm review by integrated budget component section of this document. In relation to organizational effectiveness and efficiency (OEE) output 2, UNFPA is reclassifying as 'management' the costs of regional resource mobilization and partnership advisors, regional communications and information advisors, and other support costs. While this is a *budget-neutral* move from an integrated budget perspective, it represents an annual increase of $3.5 million in management costs, but this is fully offset by the corresponding decrease in amounts requested for global and regional interventions. This reclassification more accurately reflects the nature of the activities performed by these positions and therefore facilitates their planning, monitoring and reporting.

Developing a sustainable model for UNFPA

61. While the identification of austerity measures constituted an immediate step to ensure that UNFPA did not spend resources beyond its means, this approach does not provide a sustainable model for the organization going forward. In light of the new environment, existing processes and structures will need to be reviewed. The focus of the review will be on optimizing resources for UNFPA in a sustainable manner, thereby avoiding the need to resort to austerity measures on an ad-hoc or urgent basis. It is expected that the review will yield savings that will be reflected in the proposal for the integrated budget, 2018-2021, to be submitted to the Executive Board for approval in 2017.

62. UNFPA is proposing to allocate a lump-sum amount of $3 million towards the implementation of this functional review. This allocation would allow the organization to draw on the external professional expertise necessary to support this complex exercise as well as to fund one-time costs associated with possible changes (potential staff relocation or separation payments, office set-up, among others) as a consequence of the review. These one-off costs are reflected under management non-recurrent costs.

Output 3: Increased adaptability through innovation, partnership and communications

Reclassifying costs to better reflect the nature of the activity performed

63. The overall approach to the reclassification of residual management costs in the global and regional interventions is discussed in the midterm review by integrated budget component section of this document. In relation to OEE output 3, UNFPA is reclassifying as 'management' the costs of its office in Addis Ababa, as well as those related to global multilateral affairs, strategic partnerships and communications. While this is a *budget-neutral* move from an integrated budget perspective, it represents an annual increase of $2.9 million in management costs, fully offset by the corresponding decrease in amounts requested for global and regional interventions. This reclassification more accurately reflects the nature of the activities performed by these positions and therefore facilitates their planning, monitoring and reporting.

Strengthening partnerships

64. As part of its strategy to more vigorously engage and to foster even deeper relations with a number of key partners, UNFPA is setting up a small liaison function in London, United Kingdom. This will facilitate the development of stronger ties with the Government of the United Kingdom, as well as with a number of important international civil society organizations and private-sector and academic partners, to develop partnerships around the mandate and core mission of UNFPA, within the context of the ICPD Beyond 2014 and the Agenda 2030. The estimated costs amount to $0.45 million annually, funded from global and regional interventions.

D. Enhancing results based-budgeting

65. The Executive Board in decision 2013/32 requested UNFPA to include in the midterm review of the integrated budget an assessment of ways to enhance results-based budgeting – one of the key elements of the roadmap to the integrated budget. A harmonized model was approved by the Executive Board in decision 2011/10, which provided linkages between results and resources for institutional budget costs. The model was first implemented in the proposal for the institutional budget, 2012-2013.

66. Building on this model, the integrated budget, 2014-2017 included a comprehensive framework covering the entire spectrum of results and resources, comprising not only institutional budget costs but also programme costs. This was the first time that the link between results and resources was provided for both development results as well as organizational effectiveness and efficiency results within an integrated framework.

67. During first two years of the strategic plan, UNFPA made improvements to its internal policies and planning procedures so that programme workplans are prepared with a view to deliver on development results. UNFPA implemented a new global programming system (GPS) in 2014. Developed as a module of the UNFPA enterprise resource planning system, GPS brings together programmatic and financial planning for all units. This not only facilitates activity planning but also provides the organization with easily accessible information on activity and strategic plan results, budget and expenditure.

68. The implementation of GPS allows for further analysis of financial information, as resources are tagged to results, at both the planning and implementation stages. Based on this information, UNFPA submitted to the Executive Board annual reports that included aggregated expenditure and reporting on results.

69. The information contained in GPS has enabled UNFPA to enhance results-based budgeting in this midterm review by providing projections for 2016 and 2017, which are based on projected income and actual proportion of expenditure at activity level, as shown on the results and resources framework in this document (table 5). Figure 3 shows that the revised proportionate resources across development outcomes and organizational effectiveness and efficiency outputs are largely in line with the projections submitted in the strategic plan and integrated budget for 2014-2017.

70. In addition, the availability of GPS data has better informed the allocation of programme resources to OEE outputs. At the time of preparation of the current budget, it was assumed that country programme resources would be allocated only to development outcomes and not to OEE outputs. The programme amounts originally foreseen under these OEE outputs corresponded only to global and regional interventions.

71. Analysis of GPS data and feedback from country offices revealed that a small portion of country programme resources must reasonably be spent on activities related to organizational efficiency and effectiveness. For example, country programme evaluations, which are considered direct costs to programme, are linked to OEE output 1. Accordingly, this midterm review links a small portion of country programme resources to organizational effectiveness and efficiency outputs.

72. In the next integrated budget (for 2018-2021), UNFPA will further enhance results-based budgeting by capitalizing on information contained in GPS and better integrating planning across regular resources and other resources. The integrated approach for planning across cost classifications, which was key to the development of the current budget proposal, will need to be expanded across funding sources for the integrated budget for 2018-2021. This will facilitate more robust resourcing for strategic results, irrespective of sources of funding.

E. Cost recovery review

73. The Executive Board in decision 2013/32 requested UNFPA to include in the midterm review of the integrated budget information on the actual implementation of the revised cost recovery methodology, together with any related recommendations.

74. UNFPA operationalized Executive Board decision 2013/9 on cost recovery, with an effective date of 1 January 2014, by issuing a cost recovery policy and accompanying guidelines, along with training sessions, webinars, and answers to frequently asked questions, training videos and other supporting material, which were made available to all offices. The importance of recovering all costs (both direct and indirect) from programmes funded from other resources has been underlined at UNFPA staff meetings, regional planning meetings, and in the revision of office configurations.

75. UNFPA complied with approved indirect cost recovery rates, with very few exceptions which have been reported to the Board in the Statistical and Financial Review reports of 2014 (DP/FPA/2015/5 (Part I/Add.1) and 2015 (DP/FPA/2016/2 (Part I/Add.1). Legacy agreements at the time of implementation of the new rates have been honoured, as requested by the Executive Board. Inter-agency discussions took place to ensure that the implementation of programmes funded from joint funding modalities was in line with Executive Board mandates.

76. In the context of an increasing proportion of other resources funding, cost recovery of indirect costs and charging of direct costs to programmes funded from other resources are key to ensuring the financial sustainability of the organization. Cost recovery constitutes a critical change management effort for UNFPA. In addition to internal measures geared towards ensuring full recovery and charging of all costs, UNFPA must rely on the partnership of stakeholders to ensure that agreements for programmes funded from other resources always embed the necessary direct costs.

77. An analysis of the implementation of the new cost recovery methodology shows that the actual effective rate for UNFPA was 7.02 per cent for 2014 and 7.03 per cent for 2015. This is within the range of the general harmonized rate of 8 per cent, the differentiated rate of 7 per cent for thematic contributions and the 5 per cent preferential rate for government cost-sharing contributions. The financial analysis was carried out following the approved harmonized methodology.

78. On the basis of actual expenditure for 2014 and 2015, management costs to be apportioned between regular resources and other resources were calculated by excluding critical cross-cutting functions, funded from regular resources. Critical cross-cutting functions for UNFPA were defined and costed strictly on the same basis as contained in the approved cost recovery methodology.

79. From remaining management costs, the amounts related to regular resources and to other resources were obtained based on the principle of full proportionality, as stipulated by the Executive Board approved cost recovery methodology. Indirect costs arising from implementation of regular resources and indirect costs arising from the implementation of other resources were estimated based on the share of actual use of resources (regular and other) for each of the two years.

80. A key challenge remains in ensuring that direct costs are charged to other resources. An analysis of UNFPA country office configurations shows that the programme regular resources are disproportionately utilized to fund positions, suggesting that other resources are not bearing their fair share of direct costs. Within this context, UNFPA will continue to reinforce internally with its staff and to advocate externally with its partners the need for full adherence to cost recovery in all proposals funded from other resources.

IV. Elements of a decision

81. The Executive Board may wish to:

(a) *Welcome* the midterm review of the UNFPA integrated budget, 2014-2017 (DP/FPA/2016/3), submitted in conjunction with the review of the UNFPA strategic plan, 2014-2017 (DP/FPA/2016/2);

(b) *Acknowledge* the organization's containment of costs, in light of revised revenue projections, as evidenced by the revised lower appropriations requested for institutional budget and global and regional interventions;

(c) *Welcome* UNFPA efforts to align costs with the harmonized cost classification framework approved by the Executive Board, thereby presenting a budget that more accurately reflects the activities performed within the organization;

(d) *Take note* of the cost recovery review, and *decide* that contributing partners must agree to include all direct costs as well as the indirect cost rate arising from the implementation of projects and programmes funded from other resources;

(e) *Take note* of the assessment of ways to enhance results-based budgeting in the preparation of the next proposed integrated budget, for 2018-2021;

(f) *Approve* revised gross estimates for the institutional budget 2014-2017 in the amount of $609.9 million, and *note* that these estimates include $150.4 million for cost recovery from other resources;

(g) *Approve* revised estimates for global and regional interventions 2014-2017 in the amount of $231.5 million;

(h) *Decide* that the appropriated amount should be used to achieve the results of the strategic plan that are linked to those resources.

ANNEX
Integrated resource plan, 2014-2017 (restated)

(In millions of dollars)

1. Resources available	Integrated budget, 2014-2017 (DP/FPA/2013/14)					Integrated budget, 2014-2017 - restated				
	Regular resources	Other resources		Total resources	Percentage of total	Regular resources	Other resources		Total resources	Percentage of total
		Programme	Cost recovery				Programme	Cost recovery		
Opening balance [a]	28.9	185.4		214.3		6.1	321.9		328.0	
Income										
Contribution-gross	1,921.7	2,382.2		4,303.9		1,565.0	2,398.6	-	3,963.6	
Other [b]	42.9			42.9		29.7	(13.0)	-	16.7	
Total income	1,964.6	2,382.2		4,346.8		1,594.7	2,385.6	-	3,980.3	
Less tax reimbursement [c]	(19.7)			(19.7)		(21.3)	-	-	(21.3)	
Total available	**1,973.7**	**2,567.6**		**4,541.3**		**1,579.5**	**2,707.5**		**4,287.0**	
2. Use of resources										
A. Development activities										
A.1 Programme [d]	1,132.1	2,310.8	(166.7)	3,276.2	*77.4%*	925.6	2,291.1	(150.4)	3,066.3	*78.0%*
A.2 Global and regional interventions	275.0			275.0	*6.5%*	213.8			213.8	*5.4%*
A.3 Emergency fund	20.0			20.0	*0.5%*	14.0			14.0	*0.4%*
A.4 Development effectiveness	149.3			149.3	*3.5%*	127.3			127.3	*3.2%*
Total development	1,576.4	2,310.8	(166.7)	3,720.5	*87.8%*	1,280.7	2,291.1	(150.4)	3,421.4	*87.1%*
B United Nations development coordination	8.6			8.6	*0.2%*	8.5			8.5	*0.2%*
C Management activities										
C.1 Recurring costs	329.4		157.7	487.1	*11.5%*	338.2	-	145.4	483.6	*12.3%*
C.2 Non-recurring costs	10.2		9.0	19.1	*0.5%*	11.6		5.1	16.7	*0.4%*
Total management	339.5		166.7	506.2	*12.0%*	349.9	-	150.4	500.3	*12.7%*
D. Special purpose										
D.1 Capital investment										
Total use of resources (A+B+C+D)	**1,924.5**	**2,310.8**	**(0.0)**	**4,235.3**	***100.0%***	**1,639.1**	**2,291.1**	**-**	**3,930.2**	***100.0%***
3. Net amounts from (to) reserves [e]	**-**	**-**	**-**	**-**		**59.7**	**-**	**-**	**59.7**	
4. Balance of resources (1-2+3)	**49.2**	**256.8**	**0.0**	**306.0**		**0.1**	**416.4**	**-**	**416.5**	
Summary institutional budget										
A.2 Development effectiveness	149.3	-	-	149.3	*3.5%*	127.3	-	-	127.3	*3.2%*
B. United Nations development coordination	8.6	-	-	8.6	*0.2%*	8.5	-	-	8.5	*0.2%*
C.1 Management recurring costs	329.4	-	157.7	487.1	*11.5%*	338.2	-	145.4	483.6	*12.3%*
C.2 Management non-recurring costs	10.2	-	9.0	19.1	*0.5%*	11.6	-	5.1	16.7	*0.4%*
D.1 Special purpose	-	-	-	-	*0.0%*	-	-	-	-	*0.0%*
Total	**497.4**	**-**	**166.7**	**664.1**	***15.7%***	**485.7**	**-**	**150.4**	**636.1**	***16.2%***

a/ Regular resources opening balance for 2014 has been revised as per 2013 financial statements; earmarked resources have been revised based on funds received and available for programming.

b/ Includes interest and miscellaneous income

c/ Adjustment for tax reimbursements to staff who are nationals of one Member State.

d/ 'Other resources - Programmes' reflects total programme expenses as per financial statements; the cost recovery is offset to enable a comparison with the estimates in the budget document.

e/ Includes adjustments to the operational reserve as per financial regulations and rules and transfers from previous periods.